

## NOTE 18 — SHAREHOLDERS' EQUITY

During fiscal 2010, the Company repurchased 2,000,000 shares of its common stock at a total cost of \$115.5.

The Company has not issued any shares of preferred stock. The terms of any series of preferred stock (including but not limited to the dividend rate, voting rights, convertibility into other Company securities, and redemption) may be set by the Company's Board of Directors.

At September 30, 2010, accumulated other comprehensive loss included a \$2.6 net loss on cash flow hedging instruments after taxes and \$53.7 in net postretirement benefit liability adjustments after taxes (see Note 17), partially offset by an \$20.4 foreign currency translation adjustment. At September 30, 2009, accumulated other comprehensive loss included a \$7.0 net loss on cash flow hedging instruments after taxes and \$41.9 in net postretirement benefit liability adjustments after taxes, partially offset by an \$8.0 foreign currency translation adjustment.

## NOTE 19 — STOCK-BASED COMPENSATION PLANS

On February 8, 2007, the Company's shareholders adopted the 2007 Incentive Stock Plan. Effective October 1, 2008, it was amended and restated to reflect requirements of Section 409A. The 2007 Incentive Stock Plan became the Amended and Restated 2007 Incentive Stock Plan (Plan), which reserves shares to be used for various stock-based compensation awards and replaces the 2002 Incentive Stock Plan. The Plan provides that eligible employees may receive stock option awards, stock appreciation rights and other stock awards payable in whole or part by the issuance of stock. At September 30, 2010, 2,267,729 shares were available for future awards under the Plan, excluding the potential reduction due to future exercises of stock appreciation rights, grants of restricted stock units, or future distributions from deferred compensation plans (discussed herein).

Total compensation cost for stock-based compensation awards recognized in the years ended September 30, 2010, 2009, and 2008 was \$17.9, \$13.4, and \$11.5, respectively, and the related recognized deferred tax benefit for each of those years was \$7.0, \$5.3, and \$4.4, respectively. As of September 30, 2010, the total compensation cost related to nonvested awards not yet recognized was \$39.5, which is expected to be recognized over a weighted average period of 2.5 years.

### Stock Options

Changes in nonqualified stock options outstanding are summarized in the following table. Most of the options are exercisable beginning from three to six years after date of grant and have a maximum term of ten years.

	Shares Under Option	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at September 30, 2009	1,012,614	\$ 28.66		
Granted	—	—		
Exercised	(269,088)	26.01		
Forfeited	—	—		
Outstanding at September 30, 2010	743,526	29.62	2.6 years	\$ 21.5
Vested and expected to vest as of September 30, 2010	743,526	29.62	2.6 years	\$ 21.5
Exercisable at September 30, 2010	743,526	29.62	2.6 years	\$ 21.5

The fair value of each option was estimated on the date of grant using the Black-Scholes valuation model, which uses assumptions of expected option life (term), expected stock price volatility, risk-free interest rate, and expected dividends. The expected option life, or expected term, is estimated based on the award's vesting period and contractual term, along with historical exercise behavior on similar awards. Expected volatilities are based on historical volatility trends and other factors. The risk-free rate is the interpolated grant date U.S. Treasury rate for a term equal to the expected option life.

The Company uses treasury shares to settle options exercised. The total intrinsic value of stock options exercised was \$9.9, \$17.0, and \$3.1 in fiscal 2010, 2009, and 2008, respectively.

### Stock Appreciation Rights

Information about the Company's stock-settled stock appreciation rights (SARs) is summarized in the following table. Upon exercise of each right, the holder of stock-settled SARs will receive the number of shares of Ralcorp common stock equal in value to the difference between the exercise price and the fair market value at the date of exercise, less all applicable taxes. The Company uses treasury shares to settle SARs exercised. The total intrinsic value of SARs exercised was \$.3, \$.2, and \$.1 in fiscal 2010, 2009, and 2008, respectively.

	Stock-Settled Stock Appreciation Rights	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at September 30, 2009	1,818,335	\$ 54.93		
Granted	975,300	56.97		
Exercised	(31,832)	54.20		
Forfeited	(15,250)	57.57		
Expired	(16,500)	65.60		
Outstanding at September 30, 2010	2,730,053	55.59	7.8 years	\$ 11.9
Vested and expected to vest as of September 30, 2010	2,674,345	55.51	7.8 years	11.8
Exercisable at September 30, 2010	803,981	47.95	5.7 years	8.6

In September 2010, the Company granted cash-settled SARs for the first time. Upon exercise of each right, the holder of cash-settled SARs will receive cash equal in value to the difference between the exercise price and the fair market value at the date of exercise, less all applicable taxes. In fiscal 2010, the Company granted 51,000 cash-settled SARs with an exercise price of \$57.45. As of September 30, 2010, all were outstanding, none were exercisable, the remaining contractual term was 10 years, and the aggregate intrinsic value was \$.1. Cash-settled SARs are liability-classified awards that must be remeasured at fair value at the end of each reporting period, and cumulative compensation cost recognized to date must be trued up each reporting period for changes in fair value prorated for the portion of the requisite service period rendered.

The fair value of each SAR was estimated on the date of grant using the Black-Scholes valuation model, as described under the heading "Stock Options" above. The weighted average assumptions and fair values for SARs granted each year were as follows:

	2010	2009	2008
Expected term	6.1 years	7.0 years	6.4 years
Expected stock price volatility	30.4%	30.5%	30.0%
Risk-free interest rate	2.05%	2.70%	3.31%
Expected dividends	0%	0%	0%
Fair value (per right)	\$19.16	\$22.68	\$24.20

### Restricted Stock Awards

Information about the Company's restricted stock awards (nonvested shares and stock units) is summarized in the following table. Of the awards granted in fiscal 2010 and nonvested at September 30, 2010, 112,500 are restricted stock units which entitle awardees to receive the same number of shares upon vesting. The rest of the restricted stock awards are nonvested shares of stock issued to awardees. Of the awards granted in fiscal 2010 and nonvested at September 30, 2010, 175,500 vest only if the Company achieves a compounded annual growth in earnings per share (excluding certain items) over the course of fiscal years 2010 and 2011 of no less than 10%. Assuming that performance condition is achieved as expected, approximately 103,755, 41,255, 163,255, 42,833, 42,833, and 42,834 shares/units are scheduled to vest in fiscal 2011, 2012, 2013, 2014, 2015, and 2016, respectively, but would vest immediately in the event of a qualifying retirement or involuntary termination (other than for cause). The grant date market value of each award is recorded as a reduction of shareholders' equity and amortized on a straight-line basis over the expected vesting period. The total fair value of restricted stock awards that vested during fiscal 2010, 2009, and 2008 was \$.4, \$.9, and zero, respectively.

	Number	Weighted Average Grant Date Fair Value
Nonvested at September 30, 2009	263,765	\$ 51.22
Granted	179,837	56.34
Vested	(6,837)	56.09
Forfeited	—	—
Nonvested at September 30, 2010	436,765	53.25

### Other Stock-Based Compensation Awards

On August 4, 2008, the Company granted a restricted incentive award to certain Post Foods employees. The award, which will be paid in cash on August 4, 2011, will be equal to the value of 13,200 shares of the Company's stock on that day. In the fourth quarter of fiscal 2010, the Company granted similar awards based on a total of 42,190 shares to AIPC employees, which will be paid in the fourth quarter of fiscal 2013. For each grant, the estimated fair value of the payout is being accrued on a straight-line basis over the period from the grant date to the payout date. Related expense recorded for fiscal 2010, 2009 and 2008 was \$.2, \$.3, and \$.1, respectively.

On September 25, 2008, the Board of Directors approved a long-term cash incentive award for the corporate officers. The incentive is tied to stock price improvements driven by the successful integration of the Post Foods acquisition and continued improvement of existing businesses, as well as continued employment. As of September 30, 2010, the maximum incentive award totaled \$10.8 for all corporate officers and will be paid if, for twenty consecutive trading days between June 1 and December 30, 2010, the Company's stock price maintains an average closing price of at least \$85.00 per share. A graduated reduced payout will be made if the Company's highest 20-day average stock price during that period is below \$85.00 but above \$80.00 per share. The estimated fair value of the payout (based upon the Company's current assessment of the likelihood of the achievement of stock price targets) is being accrued on a straight-line basis over the period from September 25, 2008 to December 30, 2010. Related expense recorded for fiscal 2010, 2009, and 2008 was \$(1.0), \$1.0, and zero, respectively.

### ***Deferred Compensation***

The Plan provides for deferred compensation plans for non-management directors and key employees, as well as an Executive Savings Investment Plan.

Under the Deferred Compensation Plan for Non-Management Directors, any non-management director may elect to defer, within certain limitations, his retainer and fees until retirement or other termination of his directorship. Deferrals may be made in Ralcorp common stock equivalents (Equity Option) or in cash under a number of funds operated by The Vanguard Group Inc. with a variety of investment strategies and objectives (Vanguard Funds). Deferrals in the Equity Option receive a 33 1/3% Company matching contribution that is fully vested. All distributions under this plan are paid in cash.

Under the Deferred Compensation Plan for Key Employees, eligible employees may elect to defer payment of all or a portion of their bonus until some later date. Deferrals may be made in the Equity Option or in the Vanguard Funds. Under this plan, deferrals into the Equity Option are distributed in Ralcorp stock, while deferrals into the Vanguard Funds are distributed in cash.

The Executive Savings Investment Plan generally allows eligible employees to defer up to 44% of their cash compensation. However, once they have reached the legislated maximum annual pre-tax contribution to the Company's Savings Investment Plan [401(k)] or their compensation exceeds the legislated maximum compensation that can be recognized under that plan, they are eligible to defer an additional 2% to 6% of their cash compensation, a portion of which receives a Company matching contribution that vests at a rate of 25% for each year of Company service. Deferrals may be made in the Equity Option or in the Vanguard Funds. Under this plan, deferrals into the Equity Option are distributed in Ralcorp stock, while deferrals into the Vanguard Funds are distributed in cash.

Matching contributions related to these deferred compensation plans resulted in additional compensation expense of approximately \$.5, \$.5, and \$.4 for fiscal 2010, 2009, and 2008, respectively. Market adjustments to the liability and investment related to these plans resulted in a pretax gain of \$.1 for fiscal 2010, a pretax gain of \$1.3 for fiscal 2009, and pretax expense of \$1.5 for fiscal 2008.

### **NOTE 20 — SEGMENT INFORMATION**

Effective October 1, 2009, the Company reorganized its management reporting to combine the businesses formerly included in separate Snacks and Sauces & Spreads segments into a single operating segment named Snacks, Sauces & Spreads. In addition, the Company now provides separate information for Branded Cereal Products and Other Cereal Products (formerly combined as Cereals). Management evaluates each segment's performance based on its segment profit, which is its operating profit before impairments of intangible assets, costs related to plant closures, and other unallocated corporate income and expenses.

The accounting policies of the segments are the same as those described in Note 1. The Company's revenues were primarily generated by sales within the United States; foreign (primarily Canadian) sales were approximately 5% of total net sales. As of September 30, 2010, all of the Company's long-lived assets were located in the United States except for property located in Canada and Italy with a net carrying value of approximately \$187.7. There were no material intersegment revenues (less than 1% of total net sales). In fiscal 2010, 2009, and 2008, one customer accounted for \$724.8, \$738.7, and \$476.1, respectively, or approximately 17-19%, of total net sales. Each of the segments sells products to this major customer.

The following tables present information about the Company's operating segments, which are also its reportable segments, for the year ended September 30, 2010, including corresponding amounts for 2009 and 2008, which have been revised to reflect the new segment structure. Note that "Additions to property and intangibles" excludes additions through business acquisitions (see Note 3).